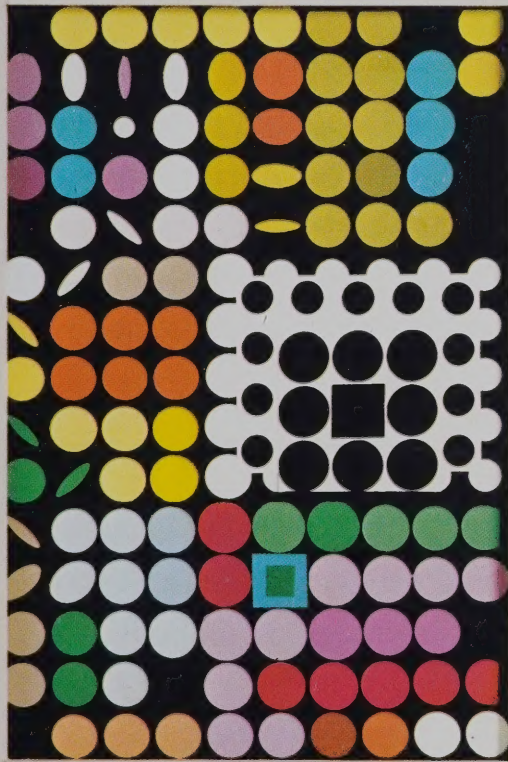


Acres Limited Annual Report 1973



Financial Highlights

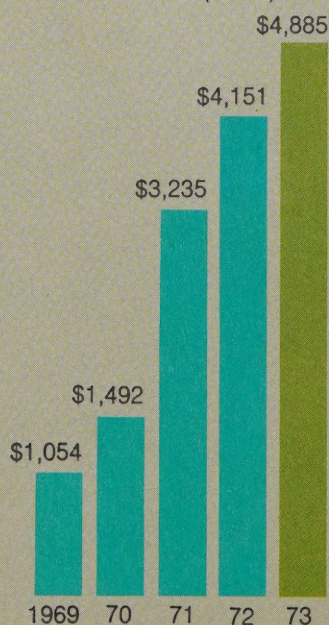
(\$000's omitted) year ended December 31

FOR THE YEAR	1973	1972
Income from consulting operations	1,127	54
Income from Traders Group Limited and Canadian General Securities Limited and other sources	4,746	4,134
Income before exceptional and extraordinary items	4,885	4,151
Net income for the year	7,047	4,426
Earnings per common share —		
Before exceptional and extraordinary items	\$1.85	\$1.49
Before extraordinary items	\$1.88	\$1.56
After exceptional and extraordinary items	\$2.94	\$1.63
AT YEAR END		
Working capital	3,932	2,742
Long-term debt	10,159	6,114
Total shareholders' equity	45,255	41,728

BOOK VALUE
PER COMMON SHARE



NET INCOME (\$000)*



EARNINGS
PER COMMON SHARE*



*Before exceptional and extraordinary items

Directors and Officers

BOARD OF DIRECTORS

G. Richard Chater
President
Grafton Group Limited

John M. Gardiner
Vice President
Acres Consulting Services Limited

Robert G. Graham
President
Inter-City Gas Limited

Donald B. McCaskill
President
Connlab Holdings Limited

James W. McCutcheon
Partner
Shibley, Righton & McCutcheon

Raymond A. Pillman
President
CIPM Canadian International
Project Managers Ltd.

Hugh C. Rynard
President
Acres Limited
and
President
Acres Consulting Services Limited

Andrew Sarlos
Vice-President, Finance
Acres Limited
and
President
MerBan Capital Corporation Limited

Gordon R. Sharwood
Chairman of the Board
Acres Limited
and
Chairman of the Board
Guaranty Trust Company of Canada

Sami Tibshirani
Vice President
Acres Consulting Services Limited

CORPORATE OFFICERS

G. R. Sharwood, Chairman of the Board
H. C. Rynard, President
A. Sarlos, Vice-President, Finance
D. F. Pols, Treasurer
B. Simpson, Assistant Secretary

AUDITORS

Price Waterhouse & Co.

GENERAL COUNSEL

Lash, Johnston, Sheard & Pringle

BANKERS

The Royal Bank of Canada
Banque Canadienne Nationale
Marine Midland Bank—Western
Buffalo, N.Y.

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company

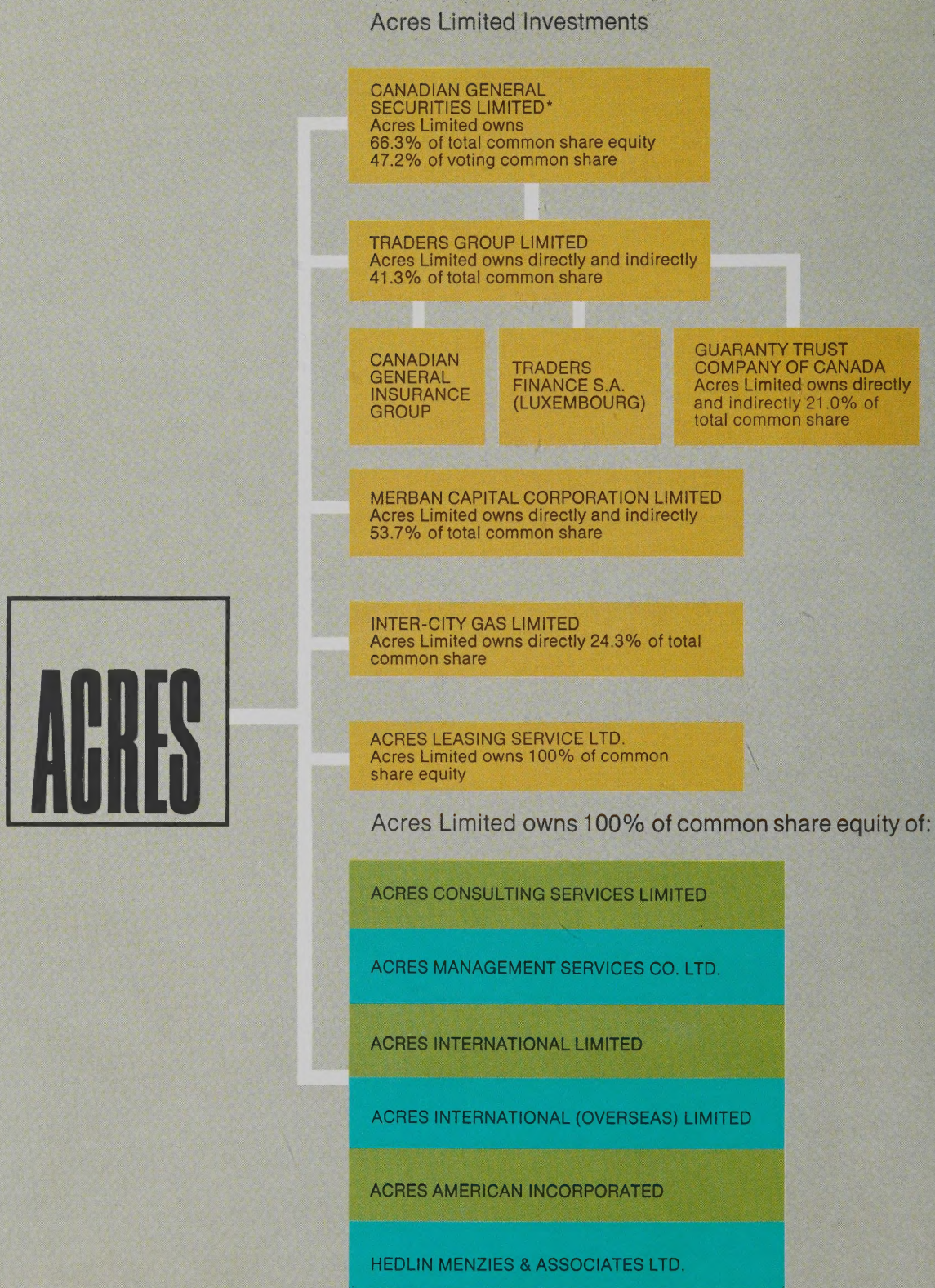
LISTING

The Toronto Stock Exchange
The Montreal Stock Exchange
The Vancouver Stock Exchange

ANNUAL MEETING:

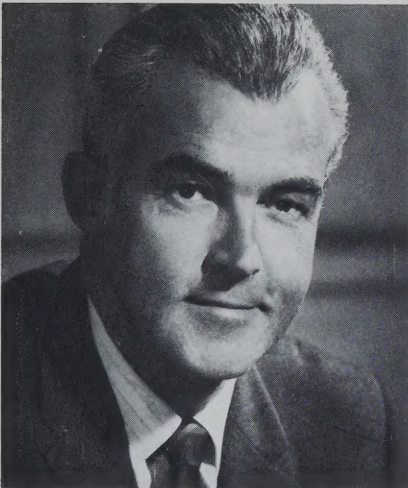
The Annual Meeting of Shareholders of
Acres Limited will be held in the
Sheraton Room of the King Edward
Sheraton Hotel, 37 King Street East,
Toronto at 11 a.m. Monday,
May 6th, 1974.

Corporate Structure



*Canadian General Securities Limited is a holding company which owns 16.2% of total common share equity and 80.9% of voting common share equity of Traders Group Limited.

Report to the Shareholders



Our Company has completed another year of progress, with a good growth in earnings for the period. Earnings per share for 1973 before extraordinary and exceptional items amounted to \$1.85, compared to \$1.49 for 1972—an increase of 24 per cent. The book value per share has risen to \$14.32 compared with \$12.56 at the end of 1972. In 5 years this value has increased to 6½ times its level at December 31, 1968.

The earnings of our consulting subsidiary, Acres Consulting Services Limited, made a substantial contribution to the Company's profit for the year, contributing \$1,127,000 before tax, compared to \$54,000 a year earlier. Both the rate of growth and performance of this part of our Company continue to improve, particularly in energy and related fields of work, and prospects are excellent for several years ahead. At the start of 1974, the backlog of firm work in hand was at a record high level.

During 1973 the operations of Acres Consulting Services Limited were restructured to provide planning, management, and engineering services through Divisional Groups directed to specific market areas: Power—Metals—Heavy Civil Engineering and Fuels—and Industrial and Special

Services. The revised structure and accountability by division took effect for all operations on January 1, 1974.

The performance of Traders Group Limited during the year showed modest improvement over 1972, in the face of rapidly rising interest rates. The volume of business transacted increased considerably. Any levelling or weakening of interest rates during the coming year should yield a gain in earnings. In December 1973, Traders Group Limited increased its holdings in Guaranty Trust Company of Canada to 50.6 per cent of the outstanding common shares.

As a further step in our plan to develop our activities in the energy field, we acquired 24.3 per cent of the common shares of Inter-City Gas Limited during 1973. This gas pipeline and distribution utility has significant diversified activities in related manufacturing fields. It also has major natural gas reserves in Alberta and has embarked upon an expanded exploration and development program. Inter-City's earnings performance in recent years has been outstanding and is expected to continue because of its excellent position in the industry. R. G. Graham, President of Inter-City Gas Limited, joined the Board of Acres Limited in August 1973.

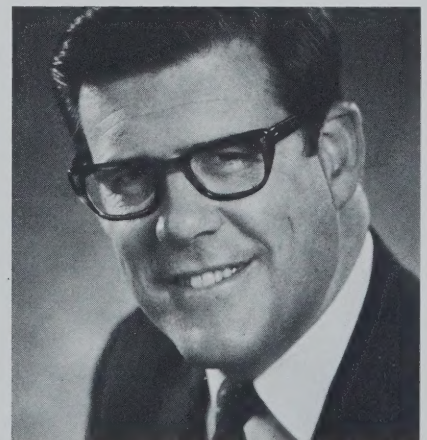
One of the Company's objectives has been the initiation and participation in innovative activity in financing and technology, concentrating on the fields of power and energy. The events of 1973, particularly the "energy crisis", have brought into sharp focus the issues raised in our report to shareholders last year concerning the depletion of reserves, shortages of supply, and the availability of low-cost energy.

In recognition of these conditions, Acres Limited has made a proposal to the Ontario Government to arrange to finance and construct a major nuclear power plant on the Canadian/U.S. border to produce power for export to the U.S. This proposition, which has

become known by its code name "Project Alpha", is based on the premise that Ontario should export refined or processed products (electrical energy) rather than its raw materials (natural uranium).

In another example of this type of activity, Acres has joined with three other Canadian companies in a consortium offering financing by private industry, combined with participation in engineering and construction, for Ontario Hydro's major heavy water expansion program at the Bruce Nuclear Complex.

This is the fiftieth year of business for the Company, dating from the formation of the consulting engineering partnership by Harry G. Acres in Niagara Falls in 1924. We are arranging appropriate recognition of this event in the fall of this year. Our main thrust, however, in launching into the next half century will be to further develop and improve Acres Limited's position in the linking of technology and financial capability to meet some of Canada's demanding needs. In this effort we rely on the wide array of skills, abilities, experience and enthusiasm that we are fortunate to have in the management and staff of Acres and our subsidiary companies. To them goes our appreciation for the sustained efforts of the past year and our encouragement for a promising future.



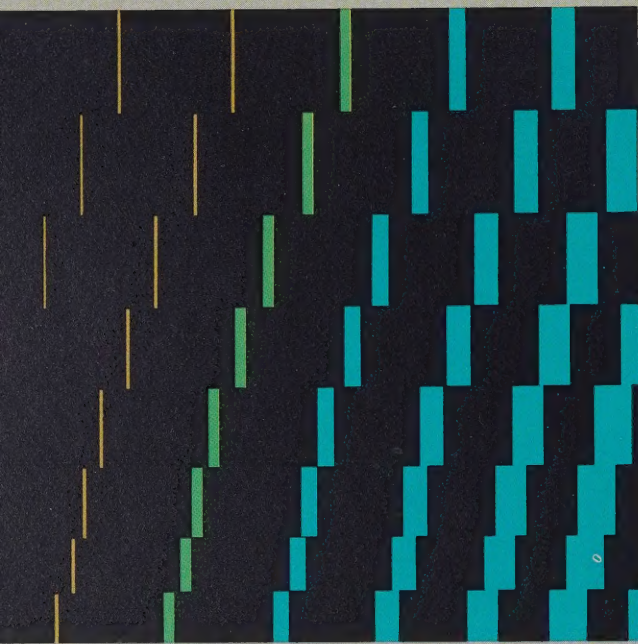
Submitted on behalf of the Board,

H. C. Rynard,
President

A handwritten signature of H. C. Rynard in dark ink.

G. R. Sharwood,
Chairman of the Board

A handwritten signature of G. R. Sharwood in dark ink.



Corporate Activities

The corporate activity of Acres Limited has been mainly channelled through the companies in which it holds investments. During 1973 and 1974, however, the role has been developing from a holding company posture to an active stance in the energy field. The progression of interest in this growing element of Canada's economy now unfolds from the traditional consulting role begun 50 years ago with Harry G. Acres' engineering partnership to today's direct participation. We begin the next 50 years with unprecedented opportunities.

Energy Related Activities

Two particular activities led by Acres Limited were directed toward assuming a significant role in Ontario's energy projects. Both have received encouragement as a result of the policy of the Government of Ontario to encourage the participation of the private sector in the province's power projects. Further investigation, action and possible implementation will extend into 1974, from the groundwork laid last year.

Acres Limited, with three other Canadian companies, have put forward a proposal to Ontario Hydro to finance extensions to the heavy water production facilities at Bruce Nuclear Complex and to participate actively in the management, engineering and construction of the \$500 million project.

The objective is two-fold: by having the private sector arrange financing funds through new sources, the burden on Ontario Hydro borrowing may be reduced; by having the private sector participate in the project work, technology and experience will be transferred to a group of Canadian companies. They can then further their joint efforts in the building of heavy water plants to the future benefit of the country's industrial activity.

The group of companies is well suited to assimilating the advanced technology involved in this essential element of the province's future nuclear program.

The proposed participation in the heavy water plant project involves innovative approaches to various issues. It is Acres' objective to provide a similar contribution to other major efforts in the power and energy field.

A second activity where the Company has taken the lead is in the proposal to build a 3,000,000-kw nuclear power plant largely for energy export to U.S. power utilities. The proposal followed a study by the consulting company of the market potential and appropriate siting of a plant compatible with Ontario Hydro's future plans.

The proposed plant and transmission facilities would involve a substantial investment of about \$1½ billion and would call for a major financing effort apart from the engineering and management required for the project itself. With appropriate partners and support from financial institutions, Acres Limited is now in a position to undertake a project venture of this scale.

Inter-City Gas Limited

During the second quarter of 1973 Acres Limited acquired a significant interest in Inter-City Gas Limited. At the year end the Company held 24.3 per cent of the equity. This investment is a further element of Acres' widening interest in the energy field.

Inter-City Gas Limited, based in Winnipeg, is a gas transmission and distribution utility with trunk pipelines in Manitoba and Minnesota serving communities and industry there and also in Fort Frances, Ontario. The company is involved in a substantial program of gas exploration and development, largely in Alberta, and now has in excess of 137 billion cubic feet of natural gas reserves. Inter-City Gas owns production facilities, including the Anthes Imperial Heating Equipment Division in St. Catharines, Ontario, and makes, distributes and sells gas and oil heating equipment.

The acquisition of shares in Inter-City Gas Limited followed Acres' disposal of its holdings in Great Lakes

Power Corporation; 285,798 common shares had been purchased on the open market in 1972 and 1973 for \$6,443,000 and were sold in April 1973 for \$8,543,000. The decision to sell followed an offer by Brascan Limited to purchase all outstanding shares at a price appreciably higher than Acres Limited valued them. While this event deflected the Company from its originally intended course of action, it provided a substantial benefit reflected in the results reported at this time.

Future

The Company emerged from 1973 with a strong position in regard to working capital and cash reserves. This provides a sound basis and potential for the future.

To a substantial degree Acres Limited's plans are linked with the pace of capital investment in Canada. The Company's economic forecast of capital investment during the years 1974-80 exceeds \$300 billion, somewhat higher than the publicly debated levels of \$270 billion to \$290 billion. The pace of activity could strain the human resources in those fields of technology through which Canada's economic development will progress.

As Acres Limited achieves its success from its established yet innovative position in finance and technology, the demands in both fields augur well for the Company's future.



General

World events of 1973 focussed sharp attention on the fields of consulting activity to which Acres is deeply committed. Energy and power supply became topics of prime concern. Pipelines and the fuels they carry assumed crucial economic importance. Demand for steel launched new programs for expansion and construction of additional mills. Industrial plants, particularly those related to fuels and energy products, called for increased engineering inputs. Continued concern over environmental impacts added widening tasks to our project work.

Acres Consulting Services Limited was in a strong position to take advantage of the improved market conditions which developed during 1973. The benefits of the planning and operating cost reduction measures initiated in 1972 were felt early in the following year. The Company refocused its marketing and operations on specific market areas. In all these areas of work the tempo of activity increased and earnings improved substantially.

Energy and related sectors of the economy provided about 60 per cent of business in 1973. Sustained activity in this field throughout the world is expected to have a major impact on the company's revenues well into the future. Acres' management and engineering resources are being applied to a wide variety of projects, including hydro-electric developments, fossil-fired thermal plants, instrumentation and control engineering for nuclear power facilities, environmental studies, thermal discharge model testing, electrical transmission and distribution systems.

Added to this range of electrical power utility work are substantial assignments for the oil and gas industry and the transportation systems on which it relies; oil and gas pipelines, compressor stations, offshore drilling structures in arctic waters, harbors, marine oil terminals, shipyards and drydocks for supertankers and various types of support vessels and rigs for offshore oilfields.

Considerable effort has been applied in past years to planning for wider participation in engineering for the steel industry. As a result the activities of the Metals group expanded rapidly during the year and the outlook for continued growth is excellent.

An Industrial division has been built up in the Toronto office, and its activities gained momentum through 1973. A significant part of its attention is being directed to establishing "design and construct" capability, an essential requirement if Acres is to undertake engineering work for process industries.

Transportation planning and engineering for a variety of facilities and modes is a further element of the Company's plan which has materialized during 1973. Work has been obtained for a major rapid transit system and for an international airport.

Projects

Canada

Approximately 65 per cent of 1973 revenues were earned from Canadian domestic projects and studies.

Acres performed project management services for Ontario Hydro Corporation on the 72,000-kw Arnprior Generating Station and Dam. In joint venture with others, the Company provided engineering services to Manitoba Hydro for hydro-electric power developments on the Nelson River and management of construction and engineering for the 5,225,000-kw Churchill Falls Project in Labrador. During 1973, Acres participated in further studies of the 1,800,000-kw Gull Island hydro power development planned for the Lower Churchill River.

During 1973 work was completed on the eastern section of the Dome Petroleum Cochin pipeline. While engineering work continues, construction progress on the remainder of the line awaits further approvals. A substantial engineering and management capability has been built up by Acres' Oil and Gas division in Calgary.

The Company has been assigned the project management of the Nova Scotia common user oil terminal, planned for Eddy Point in the Straits of Canso, capable of handling 500,000 dwt. tankers. Major engineering studies were undertaken for the Ashland Oil Canada Limited oil terminal on the St. Lawrence River, east of Quebec City. Extensive hydraulic model tests were made to investigate effects of water and ice flows on tanker berthing.

Major assignments were obtained during 1973 from Sydney Steel Corporation in Cape Breton, Nova Scotia. These include the engineering and

project management for the heavy mill improvement program and the engineering for the melt shop rehabilitation.

In Hamilton, Ontario, work for Dofasco now includes the engineering for the \$50 million five stand cold rolling mill. The volume of work justifies the establishment of an Acres project office in Burlington to serve our clients in the steel industry area.

Considerable emphasis is being placed by the Metals group on developing improvements in process design to lead to improved steel production efficiency and a reduction in adverse environmental effects. This work has led to development of the Modumill concept: a steel mill constructed in stages or modules in which each stage constitutes an economically viable facility.

Economics and planning work ranged from a road network and development plan for Camp Borden prepared for the Department of Defence, to alternative modes of transportation of oil and gas from the Arctic, to recreation plans for Northern Lake Superior, on assignment from the Ontario Ministry of Natural Resources. Work in this area has increased substantially during 1973, with a growing emphasis on energy economics.

United States

Acres' activities in the U.S. during 1973 again increased substantially and contributed about 24 per cent of the year's revenue.

Work for power utilities continued to expand, with hydro-electric power studies for Niagara Mohawk Power Corporation and a growing volume of work in the energy storage field. The underground pumped storage concept advanced by Acres has led to a continued series of studies, involving over 5,000,000-kw of plant. Underground siting of nuclear power generating plants has also been given further study under assignment from the Atomic Energy Commission.

Work is being carried out through Acres American Incorporated, Buffalo office, for Republic Steel Corporation, and a steady expansion has been planned in the U.S. for both the Metals and Heavy Industrial Divisions. The latter has taken on responsibility for major electrostatic precipitator work performed by the Company. With the addition of a major new assignment for American Electric Power Service

Consulting Activities

Corporation for the Philip Sporn power plant in West Virginia, the Company has been involved in re-equipping over 2,000,000-kw of major thermal generating plant with particulate removal equipment.

In the environmental field further thermal model studies have been undertaken. Investigations using aerodynamic modelling techniques are being carried out to improve efficiency of electrostatic precipitators. Air emission monitoring work continues to be an important element of the Company's activities.



International

In the Far East two hydro-electric plants, for which Acres provided engineering or project management, were commissioned in 1973: one at Sirikit for the Electricity Generating Authority of Thailand and the other at Nam Ngum for the Laotian National Mekong Committee.

Other work was in progress on the 340,000-kw underground hydro-electric plant at Alto Anchicaya for Corporacion Autonoma Regional Del Cauca in Colombia, and on a thermal power station at Belem, Brazil for Centrais Electricas Do Para S.A. Studies for pumped storage development were under way for Potrerillos in Argentina, where the Company continues its active interest in major hydro-electric assignments. Work was completed during the year on power studies in Ethiopia.

The Heavy Civil Engineering group provided management for dredging operations in the Parana River in Argentina. The group is responsible for the Company's transportation activities and will lead the task of master planning and detailed engineering for Jakarta International Airport in Indonesia.

A major new project in the Dominican Republic will involve a substantial effort from Acres in irrigation work financed by the World Bank.

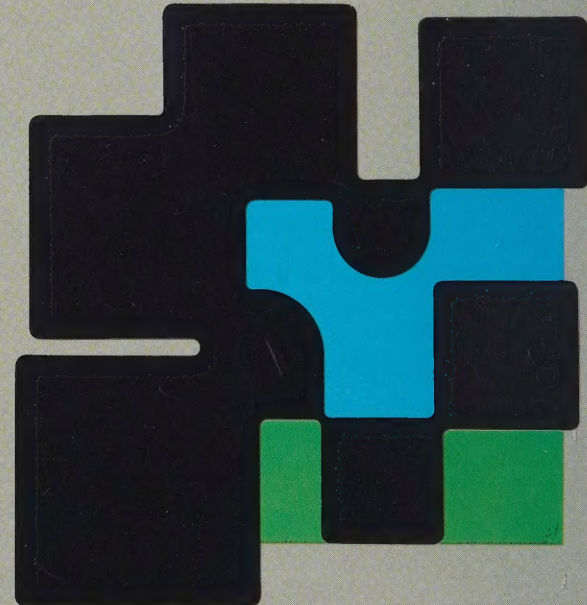
Hedlin, Menzies & Associates undertook, in 1973, a study financed by the Canadian International Development Agency of the electronics industry potential for the Andean Pact countries.

A vigorous international marketing effort is being sustained with a view to increasing the revenue from this source.

Investments

The earnings of Acres Limited are influenced to a large extent by the performance of the companies in which investments are held. Through its holdings in Canadian General Securities Limited, and through direct ownership of shares, Acres Limited holds 41.3 per cent of the total common share equity of Traders Group Limited. Acres Limited also holds 24.3 per cent of the total common share equity of Inter-City Gas Limited.

Acres Limited has a 24.3 per cent direct interest in MerBan Capital Corporation Limited. The other investors in MerBan are Canadian General Securities Limited, Guaranty Trust of Canada, Traders Group Limited, and the management of MerBan Capital Corporation. The interest held both di-



rectly and indirectly by Acres Limited is 53.7 per cent.

Traders Group Limited

Traders Group Limited achieved earnings for common shareholders of \$10,372,000 or \$2.07 per share before extraordinary items. During 1973 consolidated assets increased by \$207 million to a total exceeding \$958 million; receivables increased by \$198 million.

Finance Operations

Net income of the Finance Group was up slightly on 1972 performance, although both volume and outstanding exceeded the growth planned for 1973. Factors influencing the results were the substantial increases in interest rates in the second half of the year.

International operations which commenced during 1973 exceeded expectations and provided a good profit contribution, with the placing of over \$18 million worth of mortgages and leases on various kinds of shipping.

Land Development Operations

Land development operations provided exceptionally good results, with an increase in net profit of \$694,000 from the level achieved in 1972. The sharp increase in demand for serviced land increased the value of land in the portfolio. The division is negotiating the acquisition of additional land and is continuing its development program for land already owned.

Insurance Operations

The Canadian General Insurance Group provides bonding, general, life, sickness and accident insurance. The profit contribution from these insurance operations in 1973 was \$559,000 higher than in 1972. These results reflect for the first time a full year's earnings of Canadian General Life Insurance.

This good performance ran counter to the general trends in the insurance industry and was achieved in spite of severe competition. As long as the adverse conditions remain, it will become increasingly difficult to sustain such a relatively favorable position.

Guaranty Trust Company of Canada

Guaranty Trust Company of Canada reported a reduction in net operating profit. Traders Group Limited's share

of net income on an equity basis was \$1,448,000 compared with \$2,100,000 in 1972.

Traders Group increased its ownership from 42.4 per cent to 50.6 per cent of the shares of Guaranty Trust at December 31, 1973.

Inter-City Gas Limited

Acres Limited acquired its investment in Inter-City Gas Limited in April 1973. The full year's consolidated net income for Inter-City Gas Limited was \$2,285,000, compared with \$1,543,000 in 1972. The increase is primarily attributable to a substantial gain in the earnings from equipment manufacturing and distributing operations and to a reduction in income taxes resulting from expenditures in gas exploration.

The income to Acres Limited in 1973, from its investment in Inter-City Gas Limited, was \$235,000.

MerBan Capital Corporation Limited

During 1973 much of the activity of MerBan Capital Corporation was carried on through the MerBan Investment Fund. This fund was formed in the spring of 1973 to provide an opportunity for other investors to participate with MerBan Capital Corporation in its investment activities. MerBan Investment Fund has a subscribed capital of \$7,550,000. MerBan Capital Corporation, through its subsidiary MerBan Securities Limited, acts as the Manager of MerBan Investment Fund ('the Fund').

During 1973, the Fund engaged in five investment transactions:

Baxter Estates Limited

Together with Guaranty Trust Company of Canada and a Canadian chartered bank, the Fund purchased a 50 per cent interest in Baxter Estates Limited, a Vancouver-based real estate development company with significant holdings across Canada. The Fund has invested \$740,000 in Baxter Estates Limited, representing approximately 10 per cent of the equity of this Company.

Jannock Corporation Limited

The Fund, acting with other investors, acquired a substantial block of shares of the Glengair Group Limited. Glengair was subsequently merged with Atlantic Sugar as part of a reorganization of this group of companies. The continuing company is called Jannock Corporation Limited and has operating interests in food, pulp and paper,

and building materials. The Fund holds 207,000 shares of Jannock Corporation Limited at a cost of \$1,354,000.

United Tire and Rubber Co. Limited

In September 1973, with the controlling shareholders of United Tire and Rubber Co. Limited, the Fund underwrote a rights issue of this Company for \$1,500,000, 7 per cent convertible preference shares. This issue was part of a package of financing arranged for United Tire and Rubber Co. Limited, and subsequently a \$3,000,000 debenture issue was placed with three institutional investors. The Fund has purchased \$500,000 principal amount of the 7 per cent convertible preference shares of this Company.

Mertec Resource Development Limited

This Company was formed in partnership with a mining contractor and other investors to undertake the development of a magnetite, apatite ore body near Sudbury, Ontario. Initially the financial commitment of the Fund will be small until feasibility studies, which are now under way, have established the viability of the venture.

Kingston Spinners Limited

Kingston Spinners Limited is an Ontario-based spinner of yarn for the carpet industry. The Fund arranged for the purchase of a 40 per cent interest in Kingston Spinners Limited by a group of investors. At the present time the Fund owns approximately 15 per cent of Kingston Spinners Limited, which was acquired at a cost of \$600,000.

MerBan Capital Corporation Limited was active in 1973 as an underwriter and in arranging private placements of securities and participated in the organization and financing of Guaranty Realty Financing Limited and MM Builders Funds Limited.

Guaranty Realty Financing Limited offers a wide range of financial services to real estate developers and, in addition, acts as Manager of MM Builders Funds Limited.

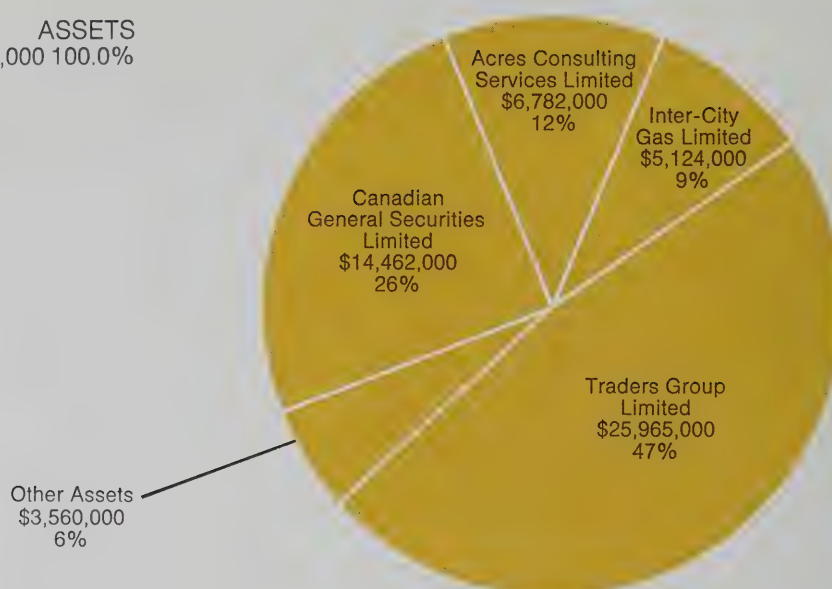
MM Builders Funds Limited was formed by the Marine Midland Bank—Western of Buffalo, N.Y. and MerBan Capital to provide bridge and construction loans to developers. The Company has an initial credit line of \$50,000,000 through the Canadian chartered banks and the commercial paper market.

Unconsolidated Financial Position

year ended December 31, 1973

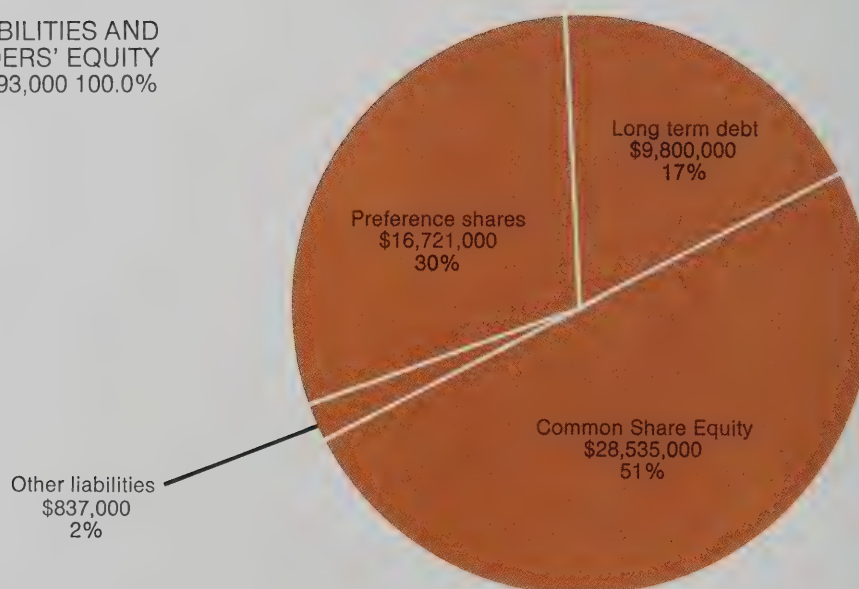
ASSETS

Total \$55,893,000 100.0%



LIABILITIES AND SHAREHOLDERS' EQUITY

Total \$55,893,000 100.0%



Distribution of Common Shareholders

Shareholdings	Number of Shareholders	Number of Shares
1 to 1,000 shares	3,972	306,903.5
1,001 to 10,000 shares	108	328,195.0
10,001 and over	44	1,357,832.0
Total	4,124	1,992,930.5

Acres Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

(\$000's omitted) year ended December 31

	1973	1972
Consulting operations:		
Revenue	17,073	15,747
Costs	15,946	15,693
	<u>1,127</u>	<u>54</u>
Investment income:		
Income from Traders Group Limited and Canadian General Securities Limited (Note 2(b))	4,191	4,050
Income from Inter-City Gas Limited (Note 3)	235	—
Profit on sale of marketable securities	181	—
Other	139	84
	<u>4,746</u>	<u>4,134</u>
Corporate costs:		
Debt servicing	533	57
Interest earned, including \$251,000 charged to consulting operations (\$253,000 in 1972)	(325)	(291)
Corporate expenses	290	264
	<u>498</u>	<u>30</u>
Income taxes (Note 4)	490	7
Income before exceptional and extraordinary items	<u>4,885</u>	<u>4,151</u>
Exceptional item — profit related to the sale of insurance group investments by Traders Group Limited	46	154
Income before extraordinary items	<u>4,931</u>	<u>4,305</u>
Extraordinary items:		
Capital gain on sale of shares of Great Lakes Power Corporation Limited less income taxes of \$533,000	1,567	—
Share of extraordinary items realized in Traders Group Limited	383	—
Income tax reduction on the carry forward of past losses	166	121
Net income for the year	<u><u>7,047</u></u>	<u><u>4,426</u></u>
Earnings per common share (Note 10):		
Before exceptional and extraordinary items	\$1.85	\$1.49
Before extraordinary items	\$1.88	\$1.56
After extraordinary items	\$2.94	\$1.63

Acres Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

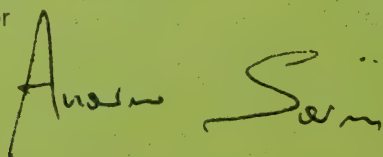
	(\$000's omitted) year ended December 31	
ASSETS	1973	1972
Current assets:		
Cash including time deposits of \$1,200,000 (\$100,000 in 1972)	1,860	463
Dividends receivable	251	354
Accounts and notes receivable	4,017	3,801
Services rendered for clients — unbilled	1,937	2,148
Marketable securities at cost — indicated market value \$761,000 (Note 2(a))	722	—
Other current assets	335	270
	<u>9,122</u>	<u>7,036</u>
Investments (Note 1(b)):		
Time deposits (Note 5)	1,000	—
Joint venture operations	560	797
Traders Group Limited and Canadian General Securities Limited (Note 2) —		
Shares	36,427	34,337
Income debenture	4,000	—
Inter-City Gas Limited (Note 3)	5,124	—
MerBan Capital Corporation Limited at equity	1,017	740
Great Lakes Power Corporation Limited at cost	—	5,767
Other at cost	137	246
	<u>48,265</u>	<u>41,887</u>
Fixed Assets at cost less accumulated depreciation of \$1,509,000 (\$1,400,000 in 1972)	1,826	1,817
Excess of carrying value of subsidiary companies over the underlying equity	1,776	1,776
	<u>60,989</u>	<u>52,516</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Bank indebtedness	273	536
Dividends payable	401	403
Accounts payable and accruals	1,648	1,300
Income taxes payable	1,346	96
Current portion of long-term debt	59	49
	<u>3,727</u>	<u>2,384</u>
Deferred income taxes relating to current assets	1,463	1,910
	<u>5,190</u>	<u>4,294</u>
Deferred income taxes relating to non-current assets	385	380
Long-term debt:		
Promissory notes (Note 3)	4,800	—
Income debenture (Note 5)	5,000	—
7% mortgage due in 1979	359	422
Bank loans	—	5,692
	<u>10,159</u>	<u>6,114</u>
Shareholders' equity :		
Share capital (Note 7)	33,373	33,395
Contributed surplus (Note 7)	31	15
Retained earnings	11,851	8,318
	<u>45,255</u>	<u>41,728</u>
	<u>60,989</u>	<u>52,516</u>

Approved on behalf of the Board:

Director



Director



Acres Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	(\$000's omitted) year ended December 31	
	1973	1972
Balance at beginning of year	8,318	5,751
Less share of adjustments to surplus made by Traders Group Limited (Note 2(b))	1,908	240
	<u>6,410</u>	<u>5,511</u>
Net income for the year	7,047	4,426
	<u>13,457</u>	<u>9,937</u>
Dividends on preference shares (\$3.60 per share)	1,209	1,225
Dividends on common shares (\$0.20 per share)	397	394
	<u>1,606</u>	<u>1,619</u>
Balance at end of year	<u>11,851</u>	<u>8,318</u>

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	(\$000's omitted) year ended December 31	
	1973	1972
SOURCE OF FUNDS:		
Operations—		
Net income for the year	7,047	4,426
Increase (decrease) in deferred income taxes relating to non-current assets	5	(97)
Depreciation	109	173
Distributions from joint venture operations in excess of current income	237	163
Income from associated companies in excess of dividends received	(3,097)	(2,866)
	<u>4,301</u>	<u>1,799</u>
Sale of investments—		
Shares of Great Lakes Power Corporation Limited after deduction of extraordinary gain of \$1,567,000	6,443	—
Other	109	372
Issue of—		
Promissory notes	4,800	—
Income debenture	5,000	—
Common shares	148	164
Long-term bank loans	—	5,692
	<u>20,801</u>	<u>8,027</u>
USE OF FUNDS:		
Investments—		
Inter-City Gas Limited	4,988	—
Income debenture of an associated company	4,000	—
Traders Group Limited	974	—
Great Lakes Power Corporation Limited	676	5,767
MerBan Capital Corporation Limited	340	740
Time deposits	1,000	—
Other	—	116
Increase in fixed assets	118	185
Purchase of preference shares for cancellation	154	155
Repayment of long-term debt	63	49
Repayment of long-term bank loans	5,692	—
Payment of dividends—		
Preference shares	1,209	1,225
Common shares	397	394
	<u>19,611</u>	<u>8,631</u>
Increase (decrease) in working capital	<u>1,190</u>	<u>(604)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

(b) Investments

The Company's share of the net profit of joint venture operations (on an after-tax basis when carried on as limited companies) is taken into income as it is earned by those companies. Income from this source is included in revenue of the consulting operations. The Company's investment in joint venture operations is recorded at cost plus undistributed income.

The investments in Traders Group Limited (Traders) and Canadian General Securities Limited (CGS) are recorded under the equity accounting principle. In arriving at the equity acquired by the Company at the time of its acquisition of these investments (and the resultant excess of cost over such equity value) certain accounts of Traders were restated by the Company. The Company's share of Traders' net income differs from income reported by Traders due to the realization by Traders of items which were restated at the time of acquisition.

Investment in MerBan Capital Corporation Limited (MerBan) is recorded under the equity accounting principle, excluding unrealized gains or losses on MerBan's investments. The Company's interest in the equity of MerBan at December 31, 1973 was 53.7% of which 24.3% was held directly.

Investment in Inter-City Gas Limited is recorded under the equity accounting principle.

For subsidiaries and the Company's own investments recorded under the equity accounting principle, the excess of cost over underlying equity is carried as an asset.

(c) Consulting contracts in process

Profit on contracts in process is recorded on the percentage of completion method.

2. INVESTMENT IN TRADERS GROUP LIMITED AND CANADIAN GENERAL SECURITIES LIMITED:

(a) Investment at December 31, 1973

Traders is a diversified finance company. CGS is an investment holding company whose principal asset is an investment in Traders. CGS owned 80.9% of the issued voting common shares and 16.2% of the total issued common shares of Traders at December 31, 1973.

Acres Limited had the following investment in the common shares of Traders and CGS at December 31, 1973:

	Number of shares	% of class
Traders		
Class A common shares	1,446,259	33.6
Class B (voting) common shares	84,590	11.8
CGS		
Class A common shares	234,210	88.8
Class B (voting) common shares	145,975	47.2

The Company's direct and indirect interest in the total common share equity of Traders at December 31, 1973 was 41.3%. Excess of cost of investments over Acres' share of the equity of Traders and CGS was \$3.3 million.

In addition to the aforementioned shares, at December 31, 1973 the Company held 41,700 shares of Traders purchased during the year at a cost of \$618,000; these shares are included in marketable securities (indicated market value \$663,000).

(b) Transactions during the year

	(\$000's omitted)		
	Traders	CGS	Total
Investment at December 31, 1972	24,329	10,008	34,337
Purchases during the year	974	—	974
Equity share of extraordinary items	280	103	383
Equity share of net income for 1973	3,126	1,065	4,191
Dividends received in 1973	(1,367)	(229)	(1,596)
Profit related to the sale of insurance group investments by Traders	33	13	46
Share of adjustments to surplus made by Traders	(1,410)	(498)	(1,908)
Investment at December 31, 1973	25,965	10,462	36,427

The Company's share of adjustments to surplus made by Traders in the amount of \$1,908,000 represents primarily the write-off of excess of cost over the underlying equity of Traders' investment in one of its subsidiaries.

The extraordinary items in Traders consist of a capital gain arising from the sale of shares of a subsidiary and income tax reductions realized on the carry forward of past losses.

(c) Income debenture

The Company purchased from an associated company a \$4,000,000 6¼% income debenture repayable on November 1, 1974, which is secured by time deposits and a bank guarantee equal to the principal amount of the debenture outstanding.

3. INTER-CITY GAS LIMITED:

During the year the Company purchased 829,800 common shares of Inter-City Gas Limited (Inter-City) at a

cost of \$4,988,000. This represents 24.3% (20.8% on a fully diluted basis) of the outstanding common shares of Inter-City at December 31, 1973. Financing for 800,000 shares was provided through the issue of promissory notes totalling \$4,800,000, bearing interest at prime bank rate plus 1% per annum, maturing in 1975. These notes are secured by the shares of Inter-City and certain shares of Traders. The remaining shares were acquired for cash. The following summarizes the Company's investment in Inter-City at December 31, 1973:

	(\$000's omitted)
Cost of 829,800 common shares	4,988
Equity share of net income	235
Dividends received	(99)
Investment at December 31, 1973	<u>5,124</u>

The excess of cost of the Company's investment in Inter-City over the equity acquired amounts to \$3.1 million.

4. INCOME TAXES:

The Company and its subsidiaries are involved in diverse and international activities and the related interpretations of income tax legislation and regulations are subject to change. The companies have made what they believe are adequate provisions for income taxes. Losses in the amount of approximately \$394,000 are available up to 1977 to reduce income taxes otherwise payable; this potential recovery has not been recorded in the consolidated accounts.

5. INCOME DEBENTURE PAYABLE:

The \$5,000,000 6% income debenture, repayable on November 1, 1975, is secured by time deposits of \$1,000,000 and the \$4,000,000 6¼% income debenture due from an associated company (Note 2(c)). These securities may be, in total, less than the principal amount of the income debenture payable, provided a bank guarantee or other acceptable security is obtained for the difference.

6. CONTINGENT LIABILITIES AND LEASES:

In the ordinary course of business the Company and its subsidiaries have lawsuits outstanding against them. In the opinion of counsel, the companies should suffer no significant losses with regard to any of the suits outstanding at December 31, 1973.

The Company and its subsidiaries have leases on real property and equipment for varying terms up to a maximum of six years. Rental expenses for the 12 months ended December 31, 1973 aggregated \$1,061,000. The minimum rentals for the succeeding five years will aggregate \$2,241,000.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS:

	Number of shares	Amount (\$000's omitted)
Preference shares		
Authorized—993,211 preference shares, par value \$50 each, issuable in series, of which 346,588 have been designated 7.20% cumulative redeemable Series A		
Issued and outstanding at December 31, 1972—Series A	337,791	16,890
Purchased for cancellation during 1973	<u>3,377</u>	<u>170</u>
Issued and outstanding at December 31, 1973	<u>334,414</u>	<u>16,720</u>
Common shares		
Authorized—3,500,000		
Outstanding—December 31, 1972	1,978,208.5	16,505
Issued during the year for cash on exercise on warrants and stock options	<u>14,722.0</u>	<u>148</u>
	<u>1,992,930.5</u>	<u>16,653</u>
Total share capital outstanding December 31, 1973		<u>33,373</u>

341,201 common shares are reserved for exercise of share purchase warrants which are exercisable at a price of \$21 per share until April 1, 1975.

Employees and officers of the Company, its subsidiaries and associated companies have been granted options to purchase common shares. No options were granted during the year. At December 31, 1973, the following options were outstanding:

5,050 shares at \$ 9.90 expiring January 22, 1974
400 shares at \$15.30 expiring July 29, 1974
11,650 shares at \$17.10 expiring December 14, 1974
6,500 shares at \$13.28 expiring March 18, 1975
14,400 shares at \$ 9.90 expiring July 2, 1975
3,000 shares at \$ 9.90 expiring January 21, 1976

Contributed surplus:

During the year, the Company purchased for cancellation 3,377 of the Series A preference shares issued and outstanding at the beginning of the year. The difference between the cost of the preference shares so purchased and the par value thereof, amounting to \$16,000, has been credited to contributed surplus.

8. PENSION PLAN:

The unfunded liability of the Company's pension plan for past service obligations has been estimated by inde-

Auditors' Report

pendent actuaries at approximately \$977,000 at December 31, 1973. This obligation is being amortized by charges to earnings over a period of up to 16 years.

Contributions for current service are made and charged to operations in amounts estimated by actuarial valuation.

9. STATUTORY INFORMATION:

The total remuneration of the directors and senior officers of the Company for the year ended December 31, 1973 was \$300,000 from the Company and its subsidiaries.

Interest on long-term debt for the year ended December 31, 1973 amounted to \$555,000 (\$87,000 in 1972).

10. EARNINGS PER COMMON SHARE:

Earnings per common share are based on the weighted average number of shares outstanding during the year (1973 — 1,984,158; 1972 — 1,969,616). Dilution of the Company's equity in Traders' earnings would have been insignificant if all the share purchase warrants of Traders had been exercised and imputed earnings were calculated on the proceeds therefrom at the average rate of return on actual outstanding equity of Traders.

If all the share purchase warrants and stock options outstanding in Acres Limited were exercised, and earnings were imputed on the proceeds using the preference share dividend rate, the dilution would have been:

	Per Share	
	1973	1972
Earnings before exceptional and extraordinary items	6¢	3¢
Earnings before extraordinary items	7¢	4¢
Earnings after extraordinary items	24¢	5¢

To the Shareholders of Acres Limited:

We have examined the consolidated statement of financial position of Acres Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 7, 1974

Price Waterhouse & Co.
Chartered Accountants.



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